

23 July 1975

MEMORANDUM FOR: Mr. Helmut Sonnenfeldt  
Counselor of the Department  
of State

SUBJECT : East European Grain Situation:  
Implications for the President's  
Trip

Hal,

Here is a free-will offering on the current outlook for the Eastern European grain crop, and our best guess on grain import implications. We were moved by the recent flood/drought combinations in the area to think the estimate might be of use in connection with the President's trip and discussions with East European leaders. [redacted] of CIA's Office of Economic Research wrote the piece.

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I also call to your attention a piece on the current overall Eastern European economic situation, published this morning in OER's Economic Intelligence Weekly. A copy is attached.

25X1

[redacted]  
National Intelligence Officer  
for USSR/EE

- 2 -

23 July 1975

MEMORANDUM FOR: Mr. Helmut Sonnenfeldt

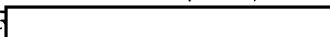
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23 July 1975

MEMORANDUM FOR: Mr. Denis Clift  
Mr. Robert Gates  
NSC Staff

SUBJECT : East European Grain Situation:  
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Trip

Denis and Bob,

Here is a free-will offering on the current outlook for the Eastern European grain crop, and our best guess on grain import implications. We were moved by the recent flood/drought combinations in the area to think the estimate might be of use in connection with the President's trip and discussions with East European leaders. [redacted] of CIA's Office of Economic Research wrote the piece.

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National Intelligence Officer  
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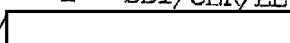
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NIO/USSR



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## **EASTERN EUROPE: ECONOMIC SITUATION REPORT**

Poor crop weather in July in Eastern Europe portends a disappointing agricultural performance in 1975 and an almost certain slowdown in economic growth. The various Communist regimes had already been braced for a difficult year because of prolonged Western recession and the substantial rise in the price of Soviet raw materials.

### **Agriculture: Floods in the South, Drought in the North**

The East European governments had been counting on a grain crop even greater than the record 90 million tons of 1974. However, rains, floods, and drought combined forces in early July to dim these hopes. With the harvest under way, torrential rains and flooding hit Romania, Yugoslavia, Hungary, and Czechoslovakia, causing considerable damage to grains. Meanwhile, grain crops in East Germany and fodder crops in Poland were threatened by drought. We have lowered our estimate of the region's grain crop to 86 million tons.

### **Impact of Western Recession**

Recession among major non-Communist countries has held back Eastern Europe's export sales in 1975, with the decline in volume being hidden by price increases and revaluations of currencies.

*Yugoslavia* purchased three-fourths of its imports from the West in 1974 and, with its more open and less centrally planned economy, is particularly vulnerable to economic developments in the West. Exports to its major Western markets declined in the first quarter compared with a year earlier while imports continued to increase rapidly. Belgrade imposed import restrictions in June. It has requested debt rescheduling on a selective basis, being able so far to finance only two-thirds of the hard currency requirements we estimate for 1975. Growth of industrial production slackened in late spring as a result of earlier import restrictions and deliberate efforts to rein in new investment. In spite of government efforts to curb imports and investment, inflation is still running at 25%. A unique factor in the inflation problem in Yugoslavia is the ability of local worker councils to press for higher wages.

*Romania*, as an exporter of petroleum and a beneficiary of higher world prices, continued its rapid industrial growth through the first quarter. Growth of exports to the West was about the same as in 1974 but, like the others, Romania was

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having difficulty in marketing such goods as textiles and chemicals in the West. Also, Romania is no longer self-sufficient in crude oil and will require increasing imports to utilize its refining capacity. Bucharest in July imposed price increases for various consumer goods and services, ranging from 25% for natural gas to 103% for heating oil.

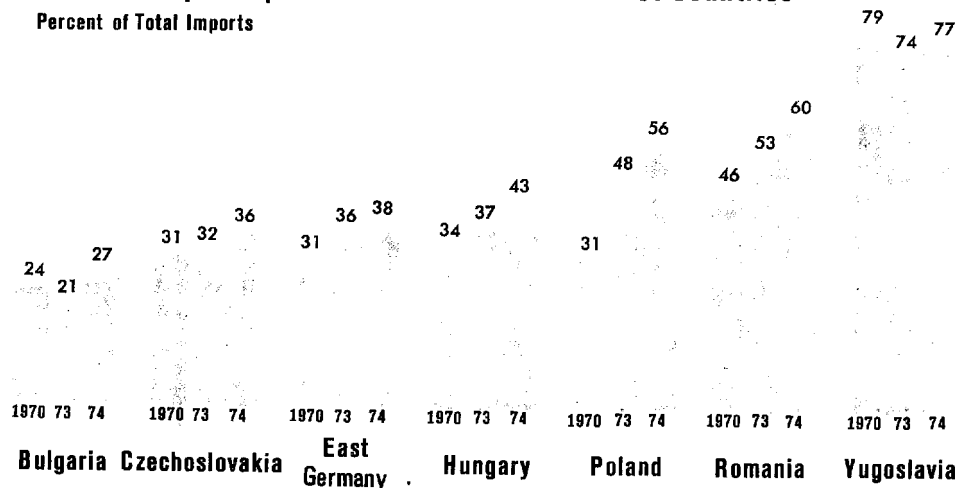
*Poland*, with the advantage of growing foreign demand for raw materials such as coal and sulfur, has been less affected than the others by world economic problems. Prices for its exports to the West actually increased more in 1974 than prices for its imports. Warsaw is having little difficulty in obtaining Western credits, having secured at least \$2.6 billion so far in 1975. The largest deal is the \$1.7 billion in government-guaranteed credits from France arranged during Giscard D'Estaing's visit to Warsaw in June. The regime is still managing to satisfy consumer demand sufficiently to avoid widespread discontent. Adverse consumer reaction to scattered meat shortages last winter and again in June underline the continuing pressure on the regime to step up supplies of quality goods.

*Hungary*, which purchased less than half of its imports from the West in 1974, already has lowered its goals for economic growth and levels of consumption for the next five years. Poor in mineral resources, Hungary is more heavily dependent on trade for its economic progress than are the other East European countries. Exports to the West declined in the first quarter and continued to decline in April and May. The government has been tightening restrictions on imports. Hungary was the only East European country to reduce orders for Western machinery and equipment in January-May 1975 compared with a year earlier.

*Bulgaria, Czechoslovakia, and East Germany* are less dependent on Western imports and have generally been less affected by the recession.

### Eastern Europe: Imports from the Non-Communist Countries

Percent of Total Imports



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Eastern Europe: Trade with the West<sup>1</sup>

Million US \$								
	Imports				Exports			
	1973	1974	Jan-Mar 1974	Jan-Mar 1975 <sup>2</sup>	1973	1974	Jan-Mar 1974	Jan-Mar 1975 <sup>2</sup>
<b>Total</b>	<b>10,521</b>	<b>15,311</b>	<b>3,080</b>	<b>4,421</b>	<b>7,828</b>	<b>9,485</b>	<b>2,110</b>	<b>2,337</b>
Bulgaria	408	717	122	243	299	325	83	89
Czecho-slovakia	1,118	1,417	289	385	963	1,139	238	299
East Germany	1,580	2,020	414	559	1,413	1,819	396	457
Hungary	929	1,526	308	461	939	1,115	235	233
Poland	2,605	3,723	778	1,084	1,589	2,029	489	543
Romania	1,164	1,809	362	581	919	1,187	237	306
Yugo-slavia	2,717	4,099	807	1,108	1,706	1,871	432	410

1. Austria, France, Italy, Japan, Sweden, Switzerland, United Kingdom, United States, and West Germany.  
Data are from Western sources.

2. Preliminary estimates.

Eastern Europe: Trade with the United States<sup>1</sup>

Million US \$								
	Imports				Exports			
	1973	1974	Jan-Mar 1974	Jan-Mar 1975	1973	1974	Jan-Mar 1974	Jan-Mar 1975
<b>Total</b>	<b>839</b>	<b>1,130</b>	<b>302</b>	<b>374</b>	<b>471</b>	<b>807</b>	<b>178</b>	<b>192</b>
Bulgaria	6	22	2	11	5	8	6	9
Czecho-slovakia	72	49	13	12	35	46	8	11
East Germany	28	21	6	2	10	14	3	3
Hungary	33	56	20	30	16	75	7	13
Poland	349	395	104	141	182	266	68	69
Romania	116	277	72	74	56	130	28	18
Yugo-slavia	235	310	85	104	167	268	58	69

1. US data.

Trade with the United States is dominated by Poland and Yugoslavia, the only countries having Export-Import Bank financing and most-favored-nation status. Romania found its access to Export-Import credits suspended under the 1974 US Trade Act; a Romanian-US trade agreement now awaits legislative action in the Congress.

#### **The Soviet Price Increases**

The stiff price increases for Soviet oil and other raw materials in early 1975 have had their greatest impact on Hungary, Czechoslovakia, and East Germany. Poland with its coal and Romania with its oil have been less affected. Bulgaria has fallen in between. Yugoslavia had been paying world market prices for its Soviet raw materials and has not been affected by the price hikes. The impact on the hardest hit countries has been mitigated - at least in 1975 - by various Soviet concessions. For instance, the Hungarians have benefited from Soviet long-term credits and above-plan deliveries of vital raw materials.

#### **Near-Term Prospects**

We expect the East European regimes to search for additional financing in Western money markets while dampening consumption at home. Indebtedness to the West is high and growing, although not yet a serious problem (except in Yugoslavia). Poland alone may avoid an economic slowdown this year. (Confidential)■

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23 July 1975

IMPACT OF FLOODS AND DROUGHT ON EASTERN EUROPE'S  
GRAIN OUTLOOK

Rains, floods, and drought combined forces during July to dim Eastern Europe's hopes for bumper harvests.

--With the harvest underway, torrential rains and flooding hit Romania, Yugoslavia, Hungary, and Czechoslovakia, causing damage to grains.

--Meanwhile, grain crops in East Germany and fodder crops in Poland are threatened by drought.

We have cut our estimate almost ten percent in the last month and now project this year's grain harvest at about 86 million tons compared with 90 million tons in 1974. This projection, however, assumes normal weather for the remainder of the growing and harvesting seasons.

The presently expected shortfall in grain production is not likely to trigger increases in grain imports. We project East European grain imports for FY 1976 of 8 to 8-1/2 million tons compared with about 9 million tons last year. The decline in imports is explained largely by the expected absence from the grain market of Yugoslavia and Bulgaria.

Yugoslavia will experience about one-half of the expected 4 million ton decline in output, but stocks from last year's bumper wheat crop, and a policy of further belt-tightening, will probably keep Belgrade out of the grain market this year. In FY 1975, Yugoslavia imported about 0.5 million tons of grain. Bulgaria is also not expected to need imports. Last year, a drought forced Sofia to import about 0.8 million tons of grain to feed livestock.

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The USSR is expected to supply the usual amount of wheat -- almost 4 million tons -- in FY 1976 and is unlikely to supply additional grain because of the floods. The Soviets would probably be responsive to emergency requests for grain by their regular East European customers -- Czechoslovakia, East Germany, or Poland, which together account for almost all of the normal Soviet sales. Among the flooded countries, Hungary, Romania, and Yugoslavia are not normally Soviet customers for grain. Of these, only Romania is now expected to be in the grain market and her maverick relationship to the USSR would work against a Soviet offer.

Eastern Europe imported about 2-1/2 million tons of grain from the United States in FY 1975 and is expected to import a similar quantity in FY 1976. Poland, Romania, and East Germany will be the major buyers of US grain. Except for Romania which has already requested emergency shipments of 200,000 tons of feed grains, the flooding is not expected to increase demand for US grain at this time. Demand will increase, however, if drought conditions persist in East Germany and Poland and result in crop losses beyond what is now forecast.

Both Poland and Romania are seeking CCC credits for grain. Warsaw plans to increase its grain purchases to as much as 1.2 million tons annually of wheat, barley, and corn to support its growing livestock sector. Romania's plans are less certain. Drought had caused two poor harvests in a row and this year a good harvest was necessary to replenish depleted feed stocks. Bucharest might also purchase wheat for resale to its export customers as it did in 1974.

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